Farmers Desires for Enterprise Units Use across County Lines

Gary Schnitkey

Department of Agricultural and Consumer Economics
University of Illinois

October 24, 2017

farmdoc daily (7):195

In a survey conducted by the Illinois Corn Growers Association, farmers with land in different counties indicated a willingness to combine insurance units across county lines. Two types of units crossing counties were considered: 1) combining enterprise units in two different counties into one multi-county enterprise unit and 2) consolidating optional and basic units in one county into an enterprise unit in another county. Furthermore, survey respondents indicated a willingness to consider whole-farm units that combine corn and soybeans into one unit. Moving to units with more acres potentially reduces premiums paid by farmers, saving working capital in tight economic times. Insurance payments would be lower, leading to reduced Federal expenditures on crop insurance.

Unit Background

The insurance unit determines the acres used to calculate guarantees and determine payments. Farmers have three choices when insuring a single crop:

- **Enterprise units** are all of one crop in a county. To be eligible for enterprise units, a farmer must have the crop in two township sections, with the lower of 20 acres or 20% of the total acres in each section.

- **Basic units** divide farmland within the county into smaller areas based on ownership control. All owned and cash rented farmland will fall into one basic unit. There will be an additional basic unit for each share rent landowner. For example, a farmer has six basic units in a county if that farmer owns farmland and rents farmland from five different owners in share rent relationships. Another farmer who owns farmland and cash rents farmland from five owners has one basic unit.

- **Optional units** divide basic units into smaller areas based on township sections. If a basic unit is in three sections, then are be three optional units.

Enterprise units typically have more acres than basic units, and basic units have more acres than optional units. Overall, yield variability is less the more acres there are in a unit and lower yield variability reduces the chances of triggering insurance payments. Therefore, premiums to cover payment losses are lowest for enterprise units and the highest for optional units. Moreover, premium support offered by the Federal
government is higher for enterprise units. The combination of lower yield variability and higher Federal support leads to lower premium for enterprise units.

The above unit structure applies to farmland in a county. If a farmer has a crop in multiple counties, there will be separate unit structures in each county. In some cases, a farmer may be eligible for an enterprise unit in one county and not in another county. In this case, farmers would pay more per acre for insurance in the county with the basic or optional unit and less in the county with the basic unit. For farmers near county lines, not meeting an enterprise unit distinction could be a frequent occurrence.

Illinois Corn Growers Association and Producer Survey

Illinois Corn Growers Association surveyed its members to see if farmers would be interested in combining enterprise units across county lines. Doing so potentially reduces the farmer-paid premium, conserving cash in this period of low margins to corn and soybean farms. Moreover, combining units across county lines could potentially lead to lower Federal outlays, as crop insurance payments would be lower for larger land areas.

The Illinois Corn Growers Association administered the survey. Individuals within the Department of Agricultural and Consumer Economics at the University of Illinois aided the design of the survey. The survey was electronic and sent in October 2017 to members of the Illinois Corn Growers Association, all of whom are farmers. A total of 398 responses were received.

Counties and Use of Enterprise Units

Of the 398 farmers responding to the survey, 40% of the farmers indicated that they grew corn in more than one county. Of the 40%, 64% grew corn in 2 counties, 28% grew corn in 3 counties, and 8% grew in 4 or more counties.

Of the farmers growing corn in more than one county, 75% of those farmers used enterprise units in at least one county. This is roughly consistent with the enterprise use in Illinois. Of Revenue Protection (RP) premium sold for corn in 2016, 66% was associated with enterprise units and 34% with basic and optional units.

Farmers with Two Enterprise Units

Of the farms using enterprise units and having farmland in two counties, 78% of the farms used enterprise units in more than one county. We then asked those farmers with two enterprise units of corn if they would be willing to combine those enterprise units into a "multi-county" enterprise unit that crossed county units if they received a 10% lower premium. Of the farms with two or more enterprise units, 64% indicated that they would be willing to combine units.

Farmers who were not willing to combine units were asked to provide reasons why they would not want to combine units. Thirty-six percent of these farmers indicated that the premium reduction needed to be larger than 10%. Other reasons included wanting to vary insurance products and coverage levels across county lines. For example, forty-five percent of the farmers indicated that their risk management plans depend on having different units across counties.

Farmers with at Least One Enterprise Unit and a Basic/Optional Unit

Of the farmers with land in more than one county, 37% had an enterprise unit in at least one county and basic or optional units in at least one other county. This situation often arises when farmland in one county is not eligible for an enterprise unit. Of these farms, 69% indicated that they would be willing to consolidate their basic or optional units into an existing enterprise unit. The question was worded such that the premium would stay the same as for the enterprise unit. Hence, a majority indicated a willingness to combine basic or optional units without a premium reduction.

Whole-Farm Units

The farmers were asked if they would be willing to combine corn and soybean enterprise units in a county into a whole-farm unit if they received a 20% lower premium. This unit would aggregate corn and soybeans and offer a combined guarantee. Sixty-three percent indicated that they would be willing to consider a whole-farm unit.
Currently, farmers have a whole-farm unit available to use in purchasing. This whole-farm option has received very little use. The little use compared to 63% indicating a willingness to consider raises some questions. Possible explanations of the discrepancy are that farmers may be unaware of that the whole-farm unit exists. Pricing and implementation may be issues as well.

Summary

Farmers responding to an Illinois Corn Growers Association survey indicated a willingness to aggregate corn insurance units across counties. A majority of farmers with two corn enterprise units indicated that they would combine these units with a reduction in premium. A majority of farmers indicated that they would be willing to combine the basic or optional unit in one county with an enterprise unit in another county. A majority of farmers indicated a willingness to consider a whole-farm unit.

These aggregations potentially reduce premiums paid by farmers. In tight economic conditions, cash flow considerations likely play a large role in these decisions. Combining units would reduce yield variability, leading to lower crop insurance payments, and in the future lead to potential reductions in Federal outlays on crop insurance.

The survey conducted by the Illinois Corn Growers Association is still open to be taken. Farmers wishing to take the survey can take it here.